Assessment of Financial Performance of Malika Development Bank Limited



Vishnu Datta Pandey

Kailali Multiple Campus T.U. Regd. No. 59213-88 Final Exam Roll No. 645/060

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In the partial fulfillment of the requirements for the *Degree of*Masters in Business Studies (MBS)

Dhangadhi, Kailai July, 2008

ACKNOWLEDGEMENT

Economic development is very important for the development of any countries. Only financially strong institution can meet its objective. Most of the bank and financial institutions has facing many problems about making better analysis of their financial position. Bank with poor financial analysis cannot make a better future planning for its perpetual growth. The management of the bank should be interested in all aspects of financial analysis that outside suppliers of capital use in evaluating the firm / bank.

This study is an attempt to carry out the better financial analysis of MDB, Ltd. Dhangadhi. The main purpose of the study is to measure identity the Financial Performance of MDB Ltd. by using suitable tools and techniques. Furthermore, it gives the necessary recommendation to the bank for its improvement. The present study (thesis) "Assessment of Financial Performance of Malika Development Bank Limited, Dhangadhi," has been submitted to the partial fulfillment of the requirement of the degree of Masters in Business Studies (MBS) as per the specimen of T.U.

I express my sense of special gratitude to **Dr. Hem Raj Pant, Professor and Campus Chief of Kailali Multiple Campus, Dhangadhi** for his valuable suggestions to complete this study.

Furthermore, I also extend my heart-felt gratitude to Mr. Padam Raj Joshi, Lecturer of Kailali Multiple Campus, for his valuable suggestions, guidance, regular supervision and advice helped me to select the subject matter and complete the research in this shape. Again, I also give thanks to the Mr. Chet Raj Pandey, Manager of Malika Development Bank for helping me by providing financial reports and information of MDB. I want to thank all the staffs of library of Kailai Multiple Campus, and Kailali Jana Pustakalaya for giving the opportunity to get materials. Similarly, I am grateful to all those authors whose books; thesis and articles have been included during the completion of the study.

I'm heartily grateful to all the staffs of NRB and especially Mr.Durgesh Gopal Shrestha for support and encouragement and, highly grateful to my respected family members for regular inspiration and cooperation to complete the research work.

Lastly, I'm thankful to Mr. Tiru Lal Chaudhary of Mayas Stationeries for nice computer setting.

Vishnu Datta Pandey Kailali Multiple Campus July, 2008

TABLE OF CONTENTS

RECOM	MEI	NDATION	
VIVA –	VOC	CE SHEET	
ACKNO	WL	EDGEMENT	i
TABLE	OF (CONTENTS	ii
LIST OF	ТА	BLES	iv
LIST OF	FIC	GURES	V
ABBRE			vi
Chapter		INTRODUCTION	1-14
-	1.1	Background	1
	1.2	Financial Sector at a Glance	5
	1.3	Profile of Malika Development Bank	9
-	1.4	Statement of the Problem	10
-	1.5	Objectives of the Study	11
-	1.6	Justification of the Study	11
-	1.7	Limitation of the Study	12
-	1.8	Chapter Plan	13
Chapter	II	REVIEW OF LITERATURE	15-42
2	2.1	Background	15
2	2.2	Origin of Development Bank	15
2	2.3	Development Banks in Nepal	18
2	2.4	Theoretical Review	23
		2.4.1 Financial Performance	23
		2.4.2 Financial Analysis	25
		2.4.3 Financial Statement	26
2	2.5	Legislatures Related to Development Bank	30
2	2.6	Review of Books, Articles and Journals	35
	2.7	Review of Thesis Related to the Study	37

Chapter III	RESEARCH METHODOLOGY	43-65
3.1	Introduction	43
3.2	Research Design	45
3.3	Populations and Sample Size	47
3.4	Source of Data	48
3.5	Data Collection and Processing Procedure.	49
3.6	Analytical Tools	50
	3.6.1 Financial Tools	51
	3.6.2 Statistical Tools	59
Chapter IV	DATA PRESENTATION AND ANALYSIS	66-96
4.1	Background	66
4.2	Financial Analysis	68
	4.2.1 Analysis of Liquidity Position	68
	4.2.2 Analysis of Profitability	75
	4.2.3 Analysis of Turnover	84
4.3	Statistical Analysis	90
	4.3.1 Trend Analysis	90
	4.3.2 Correlation Analysis	93
Chapter V	SUMMARY, CONCLUSION AND	
	RECOMMENDATIONS	97-109
5.1	Summary	97
5.2	Major Findings of the Study	100
5.3	Conclusion	104
5.4	Recommendations	106
	BIBLIOGRAPHY	110-112
	ANNEXURES	

LIST OF TABLES

Tab	Pages	
1.1	Capital Structure of MDB Ltd.	9
2.1	Classification of Minimum Paid Up Capital of BAFIs	32
2.2	Loan Classification and Provision for Loan Losses	33
4.1	Current Ratio of MDB Ltd.	69
4.2	Cash and Bank Balance to Non-fixed Deposit Ratio	70
4.3	Cash and Bank Balance to Total Deposit Ratio	71
4.4	Fixed Deposit to Total Deposit Ratio	73
4.5	Current Assets to Non-fixed Deposit Ratio	74
4.6	Total Expense to Total Income Ratio	75
4.7	Return on Assets	77
4.8	Return on Equity	78
4.9	Return on Investment	79
4.10	Interest Earning Ratio	81
4.11	Interest Expenses Ratio	81
4.12	Spread Rate Analysis	82
4.13	Earning Per Share	84
4.14	Loans and Advances to Total Deposit Ratio	85
4.15	Investment to Total Deposit ratio	86
4.16	Fixed Assets Turnover Ratio	87
4.17	Total assets Turnover Ratio	88
4.18	Non-Banking Assets to Total Loan Outstanding Ratio	90
4.19	Trend Line of Net Profit	91
4.20	Trend Line of Investment	92
4.21	Correlation between Total Deposit and Total Investment	94
4.21	Correlation between Investment and Net Profit	95

LIST OF FIGURES

Fig	Pages	
1.1	Existing Organizational Structure of MDB Ltd.	8
4.1	Cash and Bank Balance to Total Deposit Ratio	72
4.2	Total Expense to Total Income ratio	75
4.3	Return on Investment	80
4.4	Spread Rate Analysis	83
4.5	Investment to Total Deposit Ratio	87
4.6	Trend Line of Net Profit	92
4.7	Trend Line of Investment	93

ABBREVIATIONS

A/c = Account

ABB = Anywhere Branch Banking

ADB/N = Agriculture Development Bank/ Nepal

B. S. = Bikram Sambat

BAFIA = Bank and Financial Institution Act

BAFIs = Bank and Financial Institutions

EPS = Earning Per Share

FY = Fiscal Year

GDP = Gross Domestic Product

Govt. = Government

i.e. = That is

Ltd. = Limited

MCDBs = Micro Credit Development Banks

MDB = Malika Development Bank

NBA = Non-banking Assets

NBBL = Nepal Bangladesh Bank Limited

NBL = Nepal Bank Limited

NGOs = Non-Government Organizations

NIDC = Nepal Industrial Development Corporation

NPA = Non-performing Assets

NPAT = Net Profit After Tax

NRB = Nepal Rastra Bank

P/L = Profit and Loss

PGBBL = Purwanchal Grameen Bikash Bank Ltd

RBB = Rastriya Banijya Bank

RDBs = Rural Development Banks

& = And